



Director of
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Wednesday
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USSR:

Gorbachev Justifies Reykjavik Performance

In his television address yesterday, General Secretary Gorbachev projected a more polished image than during his remarks on Sunday and struck a tone of sorrow rather than anger. His message, however, was unchanged. b3

The Soviet leader charged that President Reagan had not been prepared to deal constructively on the issues despite the "large scale" Soviet compromises and voiced skepticism about the proposal for sharing the benefits of SDI. In more strident language, Gorbachev claimed the President had come to Reykjavik emptyhanded and had responded with the same "trash" that he said was stalemating the Geneva talks. b3

Ending on a relatively positive note, however, Gorbachev concluded that the work that went into the meeting would not be wasted. He said the path had been cleared for progress on disarmament "if the US adopts realistic positions." He noted the USSR was experienced in dealing with the US and recognized how "changeable" the internal "political weather" was in Washington. b3

Gorbachev emphasized that his proposals in Reykjavik had the full support of the Politburo, had been discussed prior to the meeting, and that all groups including the military had been involved in their formulation. b3

b3 [redacted] Gorbachev is attempting to take the high moral ground in hopes of building US domestic and international pressure on the administration. While indicating that dialogue with the US would continue, his reference to the changeable political climate in Washington seemed to serve warning that Moscow is prepared to wait—even for a new administration. The Soviet leader appeared to go out of his way to refute Western speculation that he was under political pressure at home to achieve an agreement. b3

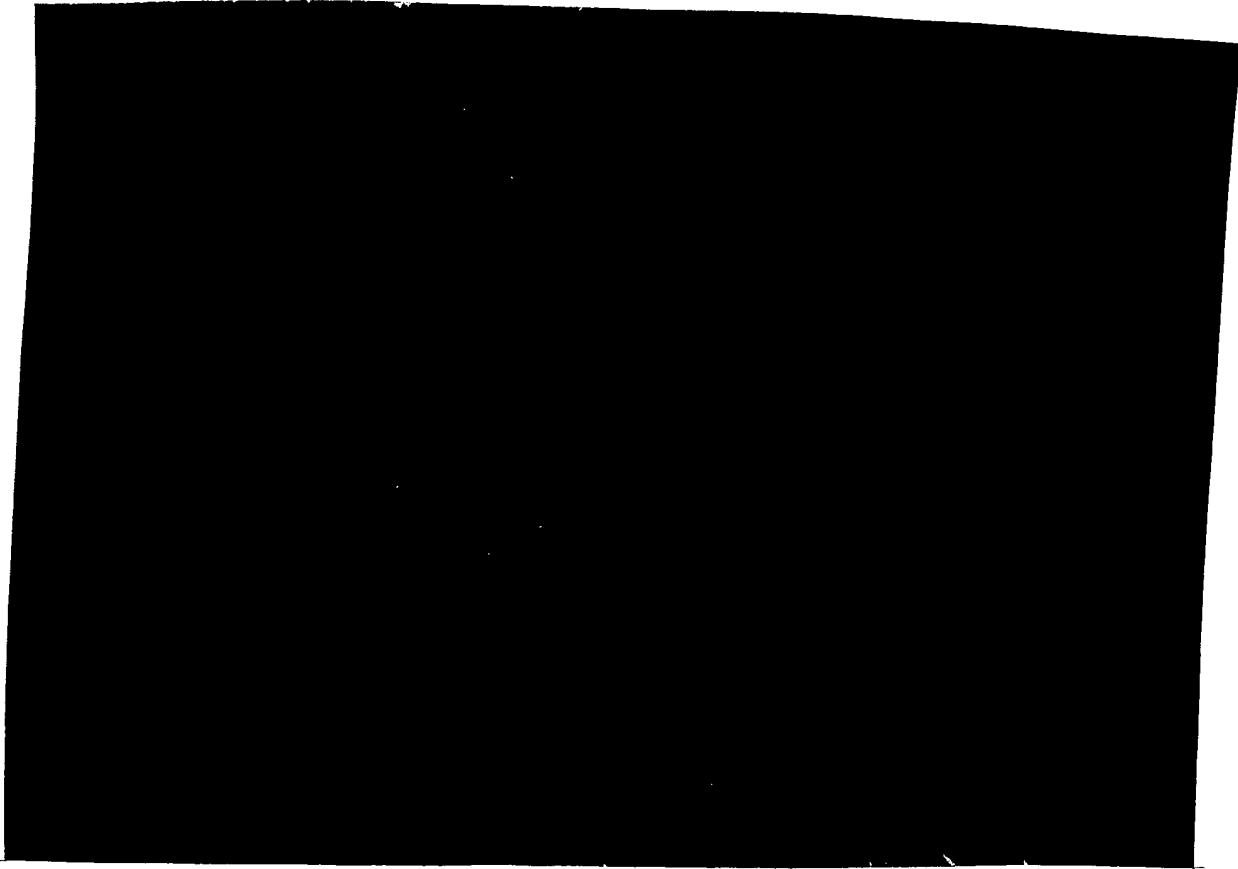
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USSR-
AFGHANISTAN:

New Units Prepare for Withdrawal

The Soviet forces to be withdrawn beginning today apparently will include two units introduced into Afghanistan after General Secretary Gorbachev announced the withdrawal in July

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[REDACTED]

A Soviet spokesman in Kabul told Western journalists yesterday that the six regiments being withdrawn amounted to about 8,000 troops and that they had been in Afghanistan since 1979. He also claimed that Afghan Government forces would now perform the tasks of the withdrawn units. An Afghan official said the withdrawal would occur in three steps: one contingent would begin to leave today, a second on Friday, and the third on Sunday. [REDACTED] b3

[REDACTED] The two newly introduced units [REDACTED] are the only [REDACTED] units preparing to participate in the ceremonies for invited Western journalists. Neither of the original motorized rifle regiments displaced by these new units gives any indication of withdrawing. [REDACTED] b3 b1 b3

While journalists may be able to estimate accurately the number of troops at the ceremonies, they will not be in a position to determine how many actually leave the country. Six regiments, if fully manned, would amount to some 7,500 men. [REDACTED] b3

b1 b3 The Afghan military remains demoralized and understrength and would be hard pressed to assume additional duties. The Soviets, however, by withdrawing three air defense regiments and one tank regiment of little utility in the Afghan war—including 60 tanks introduced from the USSR only to be pulled out—and by [REDACTED] will minimize any strain on the war effort. [REDACTED] b3

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BANGLADESH:

Presidential Election

President Ershad is certain to win the presidential election today despite recent press allegations about his corruption and efforts by the opposition—which is boycotting the election—to disrupt the polls. [REDACTED] b3

Ershad is running virtually unopposed in the election, Bangladesh's first presidential balloting since 1981. The election boycott by the leftist Awami League and the centrist Bangladesh Nationalist Party—the two major opposition parties—leaves Ershad running against 11 relatively unknown candidates. [REDACTED] b3

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Ershad has been tarnished by recent press reports of his alleged financial corruption [REDACTED], but [REDACTED] his opponents have been unable to capitalize on the charges. [REDACTED] most of the military still supports Ershad and sees him as the best guarantor of its interests. [REDACTED] b3

The opposition parties, which are boycotting the election because they charge it is rigged, have had trouble organizing protests to disrupt the election. The newspapers, the opposition's chief method of communicating with its supporters, have been on strike for most of the election campaign. Moreover, the government has banned all anti-election demonstrations and arrested several opposition leaders, according to press reports. [REDACTED] b3

b3 [REDACTED] Ershad will next seek to have Parliament pass a bill protecting his martial law acts from legal challenge, and then he is expected to lift martial law, which has been in effect since 1982. b3 [REDACTED] he probably has the necessary two-thirds vote in Parliament to pass such a bill despite opposition from parliamentary members of the Awami League. [REDACTED] b (3)

b3 Ershad's election win, despite the opposition's boycott, will give him some of the legitimacy he has sought since he came to power in 1982. During his five-year term, he is likely to continue his pro-private-sector economic policies and moderate foreign policy. He will work to maintain close ties to the US and current levels of US economic aid. [REDACTED]

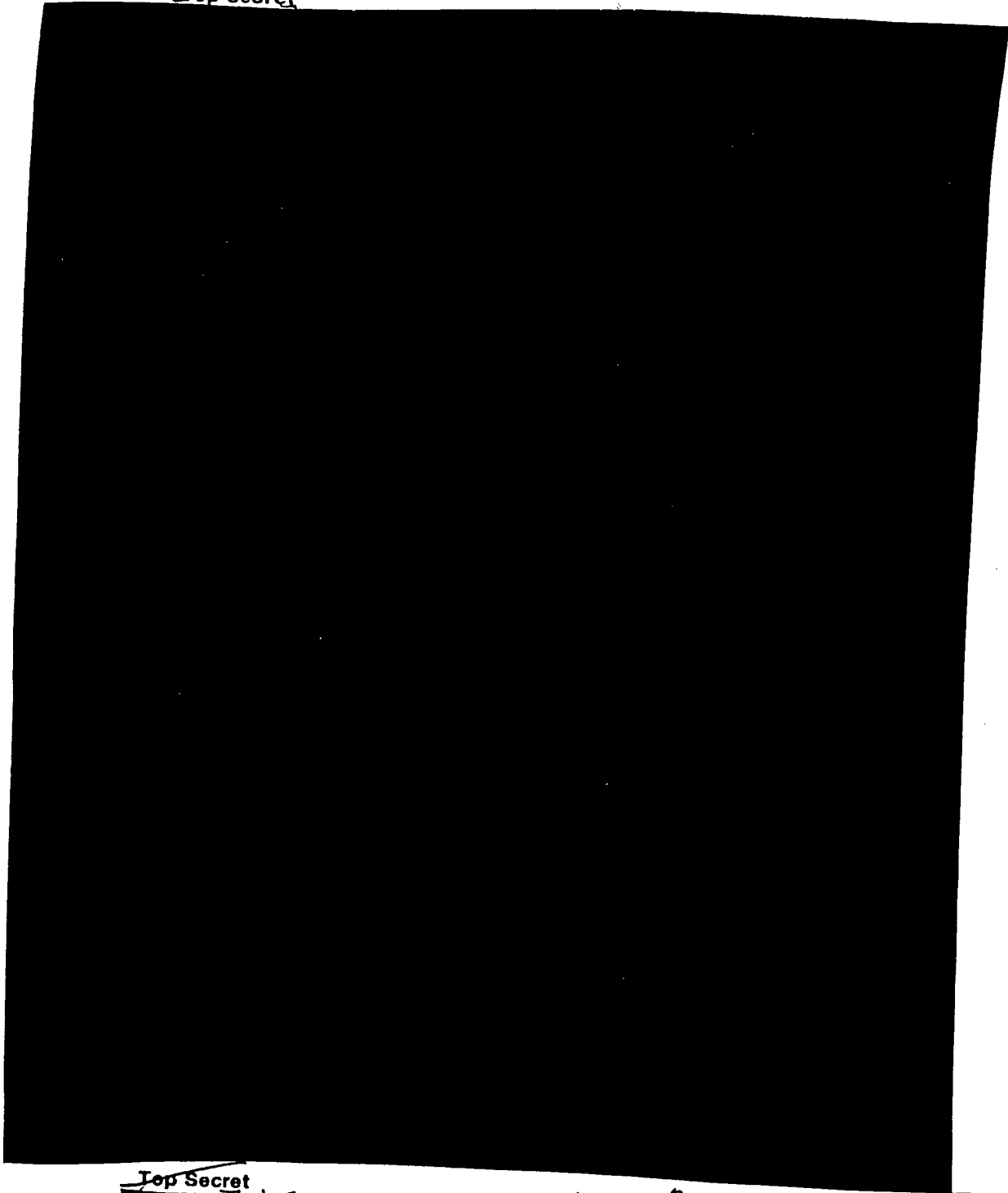
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IRAN-IRAQ: Offensive Preparations Continue

Iran's limited attack at Qasr-e Shirin yesterday is part of its effort to confuse and weaken the Iraqis before launching a larger offensive.

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Iranian ground attacks at Qasr-e Shirin yesterday and elsewhere along the border in the past month probably were intended to improve tactical positions as well as to increase pressure on the Iraqis. Iran's uninterrupted buildup of troops and materiel at major staging areas and the improvement of supply lines in the south suggest that the Iranian offensive—although delayed—is still on track.

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ARGENTINA: Constitutional Reforms Proposed

An advisory panel appointed by President Alfonsin announced politically controversial recommendations for constitutional reform this week. The most important proposal would reduce the presidential term from six years to four years and permit the chief executive, who currently cannot succeed himself, to serve two successive terms. The panel also endorsed adoption of elements of a parliamentary system, including the office of prime minister. The government is pushing for a constitutional convention, delegates to which would be elected during the congressional election in November 1987.

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The proposed changes are likely to meet stiff resistance from the opposition Peronists, most of whom fear that allowing the popular Alfonsin to run in 1989 would doom their candidate. A two-thirds vote of the National Congress is required to call a constitutional convention, but Alfonsin's party has only a bare majority in the House of Deputies and is outnumbered by the Peronists in the Senate.

URUGUAY: Human Rights Impasse

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President Sanguinetti is under renewed pressure to resolve the military amnesty issue following the Uruguayan Senate's rejection last week of a bill to limit trials of officers accused of human rights abuses under the previous military regime. The supreme court must now decide whether the cases will go to civilian or military courts.

Any decision Sanguinetti makes will be strenuously opposed by either the military or the political opposition.

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SOUTH KOREA: Maneuvering on Constitutional Revision

b1, b3 [redacted] the current impasse in parliamentary negotiations on constitutional reform may prompt President Chun Doo Hwan to push through the National Assembly an amendment establishing a parliamentary system. [redacted]

Such a hardline approach in the Assembly would expend a major share of the political capital Chun has gained since last spring, when the government agreed to parliamentary debate on constitutional revision. His costs would be especially high if he also moved to crack down on opposition politicians and student dissidents- [redacted]

Meanwhile, ruling-party officials probably will use the threat of a showdown to encourage opposition moderates to support the government's parliamentary proposal. [redacted] b3

VIETNAM: Party Congress Delayed

b1, b3 [redacted] Preparations for the congress have been marked by unusually harsh public criticisms of the party and of leadership failures over the past decade, particularly Hanoi's inability to stem economic decline. Popular confidence in regime leaders probably has reached an alltime low, and support for younger leaders who advocate partial decentralization of the economic decision making apparatus has gained momentum over the past year. Reformers appear to have the edge in setting the party's agenda for the next five years. Conservative resistance to reform and the reluctance of the old guard to relinquish power, however, ensure continuing tumult prior to the congress. [redacted] b3

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FRANCE: Electoral Redistricting

The National Assembly approved the government's electoral redistricting bill on Monday after an opposition bid to censure the government fell seven votes short—four more than the ruling coalition's margin in the Assembly. The bill will now go to the Senate, where it is expected to pass quickly. The electoral redistricting law restores the two-round, majority voting system that the Socialists replaced with a one-round, proportional representation system last year. b3

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This parliamentary success confirms the solidarity of Prime Minister Chirac's coalition. b3

BELGIUM: Prime Minister Offers Resignation

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Prime Minister Martens tendered his resignation to King Baudouin yesterday after failing to resolve a dispute between Flemish- and French-speakers that has split his government. The King has not yet decided whether to accept the resignation. Martens was successful in insulating the government from linguistic rivalries during his five previous administrations. b3 Martens and Baudouin will probably try to let tempers cool before considering a change in government. b3

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The King is comfortable with the center-right government of Martens and probably will ask him to reconsider his resignation. Martens may still be able to reach a compromise on the thorny linguistic problem, and his attempt to resign may be an effort to put pressure on his party and his governing partners to reach an accommodation. If a solution is not found and the resignation is accepted, Baudouin will probably ask Martens to form another government. Neither Socialist participation nor a new election is likely. b3

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In Brief

Europe

- President Mitterrand announced Monday he will not run in next **French** election, scheduled for 1988 ... could change mind ... detaches him from preelection maneuvering, frees him to pick his fights ... Socialist infighting likely to increase. b3
- **Poland** reducing sentences of three of four who murdered activist priest Popieluszko and cleric tied to killing of policeman ... may be concession to security service as result of recent release of political prisoners. b3
- **Spanish** Prime Minister Gonzalez will visit **Cuba, Peru, Ecuador** by early 1987 ... probably hopes Cuban visit will placate leftists upset by his plan to increase Madrid's participation in NATO. b3

USSR

- b (3) — two **Soviet** arms carriers accompanied by Soviet minesweeper in Persian Gulf Sunday ... carriers probably arrived **Kuwait** yesterday ... minesweeper apparently replaces frigate that escorted five arms carriers to Kuwait. P3

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East Asia

- **North Korean** President Kim Il-song to visit **USSR** late this month ... first visit since May 1984 ... likely to seek more economic, security assistance ... relations improving ... Moscow still does not recognize son, Kim Chong-il, as successor.

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Special Analysis

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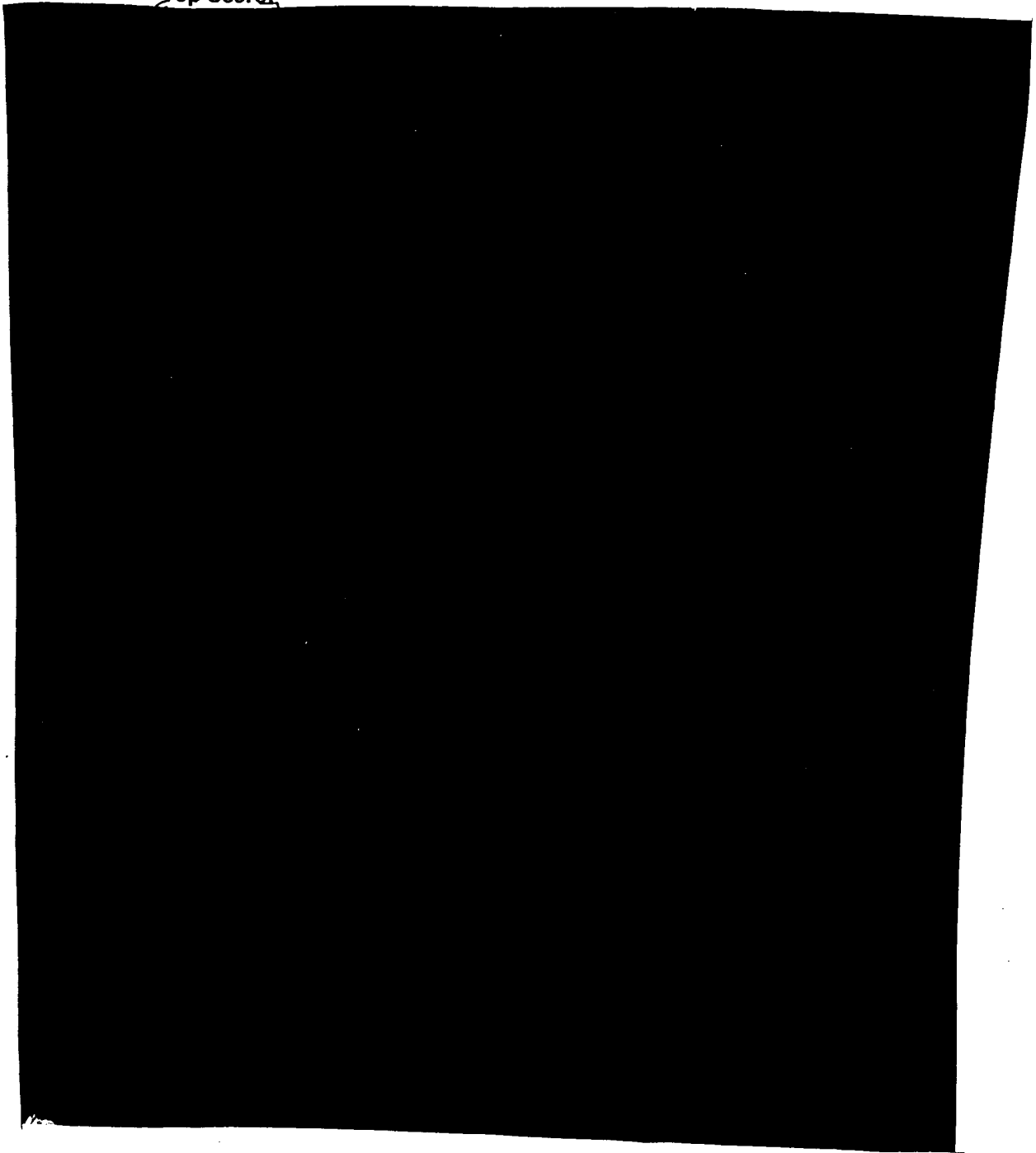
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Special Analysis

IRAN-LEBANON:

Iranian Support of Hizballah

Iran and its ally Hizballah, the radical Shia organization in Lebanon, view increased Hizballah operations in southern Lebanon as a way of expanding Hizballah's influence there and of making progress toward their goal of a Lebanese Islamic Republic. Iranian support is an important asset in Hizballah's struggle for the loyalty of Lebanon's Shia community; Tehran's provision of weapons and training has helped Hizballah to emerge as a force to be reckoned with. Tehran hopes that attacks by Hizballah against troops, Israeli forces, and the Israeli-backed Army of South Lebanon will draw even more Shias into the radical camp and demonstrate that military force can prevail against the enemies of Islam.

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Iran gives Hizballah policy guidance, training, and military equipment—most frequently artillery, small arms, ammunition, mortars, and rocket-propelled grenades. Revolutionary Guard personnel stationed in the Bekaa Valley give military and paramilitary training and instruction in small-unit tactics; they have trained thousands of Lebanese Shia since 1982.

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Political and Social Ties

Iran also promotes political, religious, and social activities by Hizballah designed to establish the group as a permanent political force with grassroots appeal. The Iranians are helping Hizballah to create in Lebanon the kind of mosque-centered network of clerics, Shia fundamentalists, and sympathizers that brought Ayatollah Khomeini to power in Iran. Tehran has promoted religious and political proselytizing and indoctrination to gain new converts to the fundamentalist cause. Tehran provided equipment and technical assistance to establish a Hizballah radio station in Ba'labakk, potentially enabling Hizballah propaganda to blanket the country.

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Iran finances social welfare programs that are the foundation of Hizballah's appeal to the beleaguered Shia of southern Lebanon. It has replaced buildings damaged during fighting with the Israelis, given financial aid to wounded fighters, financed hospital construction, and provided free medical treatment to thousands of Lebanese. The Iranian Martyrs' Foundation, a social welfare organization, has offices in Ba'labakk and southern Lebanon. In addition, Ayatollah Montazeri, Khomeini's designated successor, has promised to fund a center for Muslim theological studies and a medical school in Beirut. [REDACTED] b3

Despite the important goals that Hizballah shares with Tehran, the radical Lebanese group has managed to maintain its freedom of action. It retains close military and financial ties to the PLO, for example, despite Tehran's low regard for PLO chief Arafat. That connection has helped Hizballah to gain adherents and to conduct military operations, particularly in West Beirut and southern Lebanon. [REDACTED] b3

The Road to Jerusalem

Iran is likely to encourage cross-border attacks on northern Israel by Lebanese Shia even if Israel withdraws from southern Lebanon. The Iranians would view such attacks as serving their aims of eliminating Zionism from the region and of "liberating" Jerusalem. Many Iranian leaders also appear to believe that Hizballah operations inside Israel and on the West Bank would encourage the growth of Islamic activism in those areas, but there is no evidence that Hizballah is actively considering such operations. [REDACTED] b3

Tehran and Hizballah leaders see UN forces in Lebanon as aiding Western and Israeli interests by helping to protect Israeli forces and operations. Iran views the Israeli presence as a serious obstacle to its long-range goal of establishing a Shia-dominated Islamic Republic in Lebanon. [REDACTED] b7

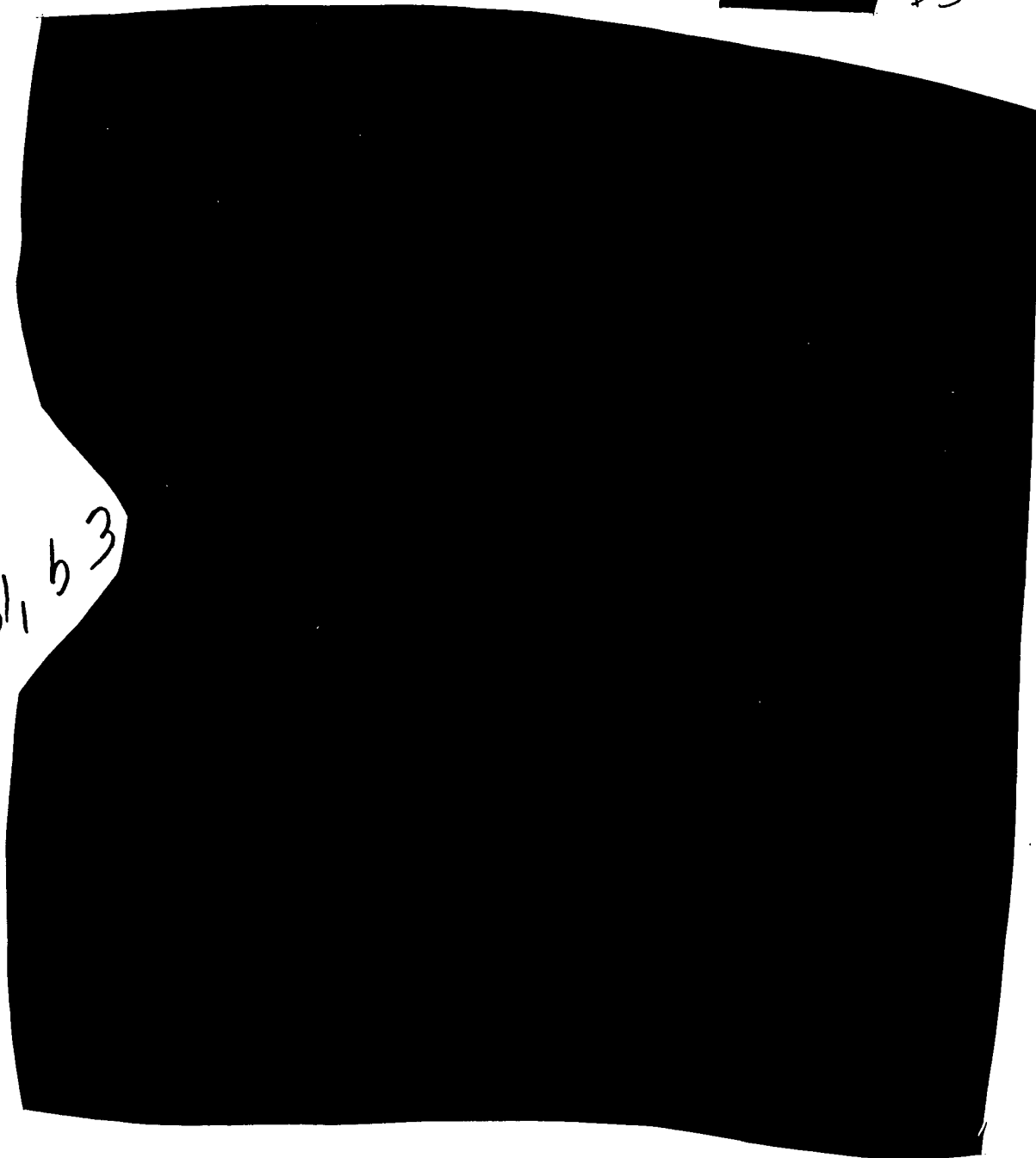
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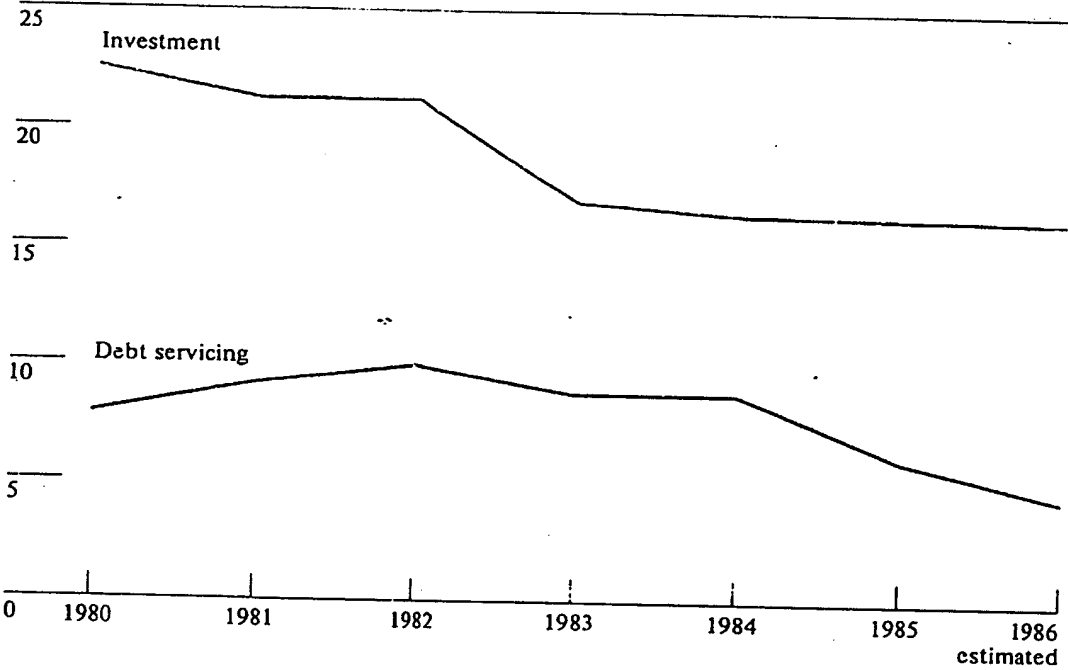
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Brazil: Debt Servicing and Investment as a Share of Gross Domestic Product

Percent of GDP



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Special Analysis

BRAZIL:

Debt Strategy

Brasilia is likely to push hard for concessions to reduce its debt repayment burden in the coming round of negotiations with foreign commercial banks. Despite its hard line in public, however, it probably will not adopt radical policies to achieve its objectives. US banks currently hold \$24 billion in Brazilian debt—31 percent of the total commercial bank debt. [REDACTED] b3

President Sarney's government will begin negotiations with its commercial creditors late this month to reschedule debts that fall due during the next five years. Brazil—the Third World's largest debtor—has publicly indicated that it must ease the foreign debt burden to sustain strong economic growth. As a result, some international bankers foresee contentious negotiations.

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[REDACTED]

Although the government has yet to set its negotiating position, Brazilian officials repeatedly have said they will strive to reduce net debt payments from more than 4 percent of gross domestic product this year to 2.5 percent next year. The difference will be used to help fund additional imports and domestic investment needed to maintain economic growth and alleviate social inequities. [REDACTED] b3

Officials have said they will attempt to reduce debt payments by negotiating a lower interest rate. [REDACTED] a b3
20-percent reduction could save \$2 billion annually and reduce payments to about 3 percent of gross domestic product next year. b3
Brasilia [REDACTED] may also seek new voluntary loans that would further reduce the repayment burden and allow Brazil to meet its 2.5-percent target. [REDACTED] b3

In return for lower interest payments, Brazilian officials may be prepared to negotiate an agreement with the IMF—normally required to obtain debt rescheduling—after the congressional elections next month. The government realizes that an accommodation with the Fund is necessary to reschedule its debts to foreign government creditors through the Paris Club. [REDACTED] b3

[REDACTED]

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